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TAGS: [PREL](#) [PGOV](#) [ECON](#) [ENRG](#) [RS](#) [LG](#)
SUBJECT: AMBASSADOR DISCUSSES ENERGY SECURITY AND OTHER
MATTERS WITH LATVIAN PRIME MINISTER GODMANIS

Classified By: Ambassador Charles W. Larson for Reason 1.4(d).

11. (C/NF) Summary. On May 15, Ambassador Larson met Latvian Prime Minister Ivars Godmanis for discussions on a wide range of issues. They discussed energy security, the privatization of Lattelekom, developments in the Latvian economy, and the GOL's invitation for Prime Minister Putin to attend the Council of Baltic Sea States Summit in early June. In a private tete-a-tete, Godmanis assured Ambassador Larson that any coal plant that would eventually be built in the port city of Liepaja would be built and operated by a western firm. He similarly asserted that the GOL would only sell its stake in fixed line telephone operator Lattelekom to a western company as well. Comments that the PM made on the future of the KNAB were reported Septel. End Summary.

12. (C) Ambassador Larson met Prime Minister Ivars Godmanis on May 15 to discuss a number of topics of mutual interest. The Ambassador was joined by Pol/Econ Chief, and Pol/Econoff (notetaker). The conversation opened with casual discussion of the Latvian economy. Godmanis stated that the GOL anticipates a drop off in sales tax revenues (VAT) as the Latvian economy slows; he added that the GOL will have to adjust its budget this fall in response to these declining revenues. Godmanis also pointed out that, thus far, the GOL has not seen significant mortgage delinquencies or home foreclosures. He stated that mortgage loans have traditionally been granted to credit worthy borrowers and that there was not much of a subprime market in the country.

Energy Security or Cheap Energy?

13. (C/NF) Ambassador Larson noted that the embassy views Latvian energy policy largely through the prism of security considerations (diversification of fuel sources). He asked how the GOL views energy, whether the GOL sees security issues or cost issues as paramount. Godmanis tried to split the difference by responding, "We are going both ways." He then provided a lengthy disquisition on the future of power generation in Latvia that corroborated what Post has heard from other contacts: a) the GOL will build a new gas plant in the Riga region in the near term; b) the GOL will likely build a coal plant in Liepaja in the medium-term. (Note: in a private tete-a-tete after the meeting, Godmanis assured the ambassador that the GOL wants to ensure that the coal plant is built by a western (i.e. non-Russian) firm. End Note.)

Will Lattelekom Be Privatized?

14. (C/NF) Ambassador Larson asked for Godmanis' perspective on the Lattelekom privatization saga, and where the matter may go in the future. Godmanis answered that the GOL is in the final stages of negotiating a swap of shares with Swedish firm TeliaSonera, in which TeliaSonera would get 100 percent of mobile operator Latvijas Mobilais Telefons (LMT) and the GOL would take possession of 100 percent of fixed line operator Latttelekom. Godmanis added that TeliaSonera is

still playing games and making unreasonable demands for the deal to happen. He noted that, if the swap is finally effected, the GOL would be happy to continue discussions with American private equity firm, Blackstone, about Blackstone's interest in purchasing Lattelekom. However, Godmanis was careful to emphasize that the GOL would sell only 49 percent of Lattelekom to a private entity (and thereby maintain its majority stake in the company for the time being.) Again in the private tete-a-tete after the meeting, the PM assured the ambassador that the 49 percent stake in Lattelekom will only be sold to a western firm. The PM added that the GOL is concerned about the prospect of TeliSonera selling its shares of LMT to Alfa (a Russian company) if TeliaSonera does take full possession of 100 percent of LMT.

Lithuanians Spoiling for a Fight

15. (C) Unprompted by Ambassador Larson, Godmanis stated that he will travel to Lithuania on May 16 to meet with Prime Minister Kirkilas. He stated that the Lithuanians are using a range of issues to hold up a new PCA with the EU, including oil in Mazieku, "guarantees" on energy supplies, criminal charges from Soviet special forces actions in 1991, and restitution for damages suffered during the Soviet Occupation. Godmanis expressed some consternation about these developments, and how they might affect countries such as Latvia in the region. He later told the Ambassador privately that it may be that the Lithuanians are playing a risky game of intentionally alienating Russia, with the hope of provoking a reaction of a gas cut off or other retaliation in the energy sector. The resulting situation would be so

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dire that the Lithuanians would then attempt to prevail upon the EU to allow them to extend the operation of Ignalina Nuclear Power plant beyond the 2009 decommissioning deadline. Godmanis thought this was folly.

Putin at Council of Baltic Sea States Summit?

16. (C) Godmanis noted that German PM Merkel may not be able to attend the Council of Baltic Sea States Summit scheduled for early June. However, he expressed interest in Prime Minister Putin's possible attendance. He noted that, were Putin to attend, it would present an excellent opportunity for the countries in the region to sit down and discuss a host of issues that can only truly be addressed multilaterally. The items he expressed and interest in raising with Putin included: the proposed Nordstream Pipeline; the proposed Amberstream Pipeline; security in the Baltic Sea, especially the need for better navigation systems and mutual assistance agreements to deal with potential maritime accidents; linking up the Western European and Former Soviet energy grids; WTO tariff policies in relation to Russia; and other. The PM concluded that he has written a letter inviting Putin to attend, and eventually, "he has to make a decision. (Note: The Russian Embassy here told us that Moscow is asking many questions about who else will attend the event, which the Embassy assumes is being used to determine if it is worth Putin's time to attend. End Note.)

Comment

17. (C/NF) Godmanis is often rambling, tough to keep on point, but sharp and well-briefed. He took his time, but he eventually addressed all the items that ambassador wanted to discuss. For the most sensitive topics, he spent a solid 20 minutes in a tete-a-tete conversation with the ambassador after the official meeting. Ambassador Larson has thus far found Godmanis to be a straight shooter and someone we can work with. Keeping any future coal plant and Lattelekom in western hands would certainly help Latvia in its efforts to contain Russian influence, while potentially providing good

avenues for American investment. End Comment.
LARSON